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ON THE ROAD TO FLEXICURITY: DUTCH PROPOSALS FOR A PATHWAY TOWARDS BETTER TRANSITION SECURITY AND HIGHER LABOUR MARKET MOBILITY

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Abstract

As regards labour-market reform and employment policies, the European Union currently touts the concept of 'flexicurity', aiming at simultaneously enhancing both flexibility and security in the labour market in response to the globalisation of the economy and far-reaching demographic developments such as the ageing of the population. Each Member State is expected to map out its own distinct pathway towards more flexicurity and the European Commission has, for its part, suggested a set of four general pathways. Therefore a need exists for ideas and examples on how to elaborate a flexicurity pathway, looking for inspiration rather than imitation. In the Netherlands, a government-appointed Committee on Labour Market Participation (the so-called Bakker Committee) has recently published proposals and recommendations for further reform of the Dutch labour market. This paper discusses that part of these proposals involving a particular flexicurity pathway towards better transition security and higher labour-market mobility. This possible pathway, now being debated in the Netherlands, may also be of interest to other Member States.

Keywords: flexicurity; transition security; labour market reform; employability; unemployment insurance

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1. INTRODUCTION

One of the main challenges the European Union is currently facing is how to live up, in the era of globalisation and ageing, to European citizens' expectations of providing a distinct European Social Model (Begg, Draxler and Mortensen 2008). Can a true alternative be offered to sheer flexibilisation, deregulation and the degradation of social standards and social cohesion? Will a strong social Europe also be a strong economic Europe? Can Europe indeed have its own labour-market institutions distinct from the rest of the world (Blanchard 2006, Giddens 2007, Silva Peneda and Albino De Rossa 2006)?¹

At the European level, the expressed desire to maintain a balance between social and economic goals. The pressing question is how the European Social Model should be further developed in a concrete manner. As of 2006 this challenging question has been specifically dealt with under the heading of 'flexicurity'. The objective of flexicurity strategies is to combine employment and income security with flexibility in labour markets, work organisation and labour relations. This approach should transcend the simple trade-off between flexibility and security, where the former is seen to be in the exclusive interest of the employer and the latter is seen to be the exclusive concern of the employee. In a flexicurity strategy, flexibility and security should not be seen as conflicting aspects of labour-market arrangements, but as mutually supportive components of a well-functioning labour market. Flexicurity policy-making calls for a 'recalibration' of the welfare state (Ferrera, Hemerijck and Rhodes 2000, Ferrera and Hemerijck 2003).

Although formulated at the European level, for several reasons the flexicurity approach has to be developed into concrete policies and regulations at the Member State level. First, in view of the substantial differences in country practices and challenges, the EU rightfully does not believe in a 'one-size-fits-all' approach (see also Maydell *et al* 2006:131, Pacelli *et al* 2008). Second, the EU has to respect, under its Treaty, the autonomy of each Member State has regarding labour market and social policies. Therefore the European Commission has recently proposed a set of four different flexicurity pathways, addressing the distinct challenges faced by Member States.

The rest of this paper is structured as follows. Section 2 briefly introduces the concept of flexicurity pathways and the concrete ways in which this concept can be applied. Section 3 investigates the Dutch achievements and challenges in the area of flexicurity. On the basis of recommendations of a recent government-appointed advisory group on labour-market reform, section 4 discusses concrete labour-market

¹ Evidently, similar questions are being posed in other parts of the world. See the recent report by the US Congressional Research Service (Ahearn 2008) on *Globalisation, Worker Insecurity and Policy Approaches*.

reforms that elaborate one particular flexicurity pathway, namely the pathway towards better transition security and higher labour market mobility. The final section (section 5) draws some conclusions, with regard to the relevance and applicability of the proposals of the Dutch committee to countries other than the Netherlands.

2. EUROPEAN FLEXICURITY PATHWAYS

With the aim of offering suggestions to Member States for mapping out their flexicurity policies, the European Commission has included a set of flexicurity pathways in the *Communication on Flexicurity*, taking into account the work of the European Expert Group on Flexicurity.² These distinct pathways follow from ideal-typical situations, one or more of which might be thought relevant to the Member States. The labour-market situations are:

1. Bifurcated, two-tier labour markets with a large share of so-called 'outsiders' who lack income and employment security as well as the opportunity to make the transition to more permanent employment, paralleled by strict regulation of open-ended contracts for the so-called 'insiders';
2. Labour markets featuring relatively limited dynamism with a large share of workers who enjoy high job security but lack sufficient opportunities to find new employment in the event of redundancy;
3. Labour markets that are sufficiently dynamic but suffer from opportunity and skills gaps, which may curb productivity growth;
4. Labour markets offering insufficient opportunities to groups that are outside the formal labour market due to benefit dependence or involvement in informal work.

Four ideal-typical pathways match these situations. As all Member States neither share exactly the same challenges nor are expected to take precisely the same steps, the pathways should be considered as indicative. Thus, it is up to the Member States to consider the relevance of all the suggested flexicurity pathways to their own actual context and conditions, taking proper notice of the different institutional, political and cultural settings and histories. The concept of flexicurity pathways indicates that countries can take different roads to improve the functioning of their labour

² 'Flexicurity Pathways: Turning Hurdles into Stepping-Stones', published on 27 June 2007, available at http://ec.europa.eu/employment_social/employment_strategy/pdf/flexi_pathways_en.pdf. See also Wilthagen, T. (2008) Mapping out Flexicurity Pathways in the European Union. Available at the website of the ILO Training Centre Turin <http://zope298.itcilo.org/delta/hld2008/hld/en/thematical-papers/mapping-out-flexicurity-pathways-in-the-european-union> as well as here: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1118725.

markets, based on country-specific challenges, priorities and possibilities. Indeed, the concept of distinct pathways signals that the EU is well aware that different countries face different challenges. Such variety and diversity of welfare states across Europe is documented by many studies (Hall and Soskice 2001, Whitley 2000, Arts and Gelissen 2002, Esping-Andersen 1990, Sapir 2005). This variety is linked to historical choices based on distinct cultural and value systems leading to different economic and social institutions. As part of this institutional and cultural variety, different modalities of flexicurity, i.e. different combinations of flexibility and security, can be observed across the EU (Philips and Eamets 2007, European Commission 2006, 2007). To some extent, these modalities of flexicurity can be considered functional equivalents, with the diversity originating in the distinct national styles of regulation or social regimes that have emerged over the years (Cazes and Nesporava 2007). Since flexicurity can take different forms from country to country, Member States and social partners should assess their own particular situation and identify their own meaningful flexicurity pathways to cope with their specific labour-market challenges.

The flexicurity policies can be designed and implemented across four policy components defined by the Commission, which may be mutually supportive. These four components are:

1. Flexible and reliable contractual arrangements;
2. Efficient active labour market policies (ALMP) to strengthen transition security;
3. Systematic and responsive lifelong learning;
4. Modern social security provisions that also facilitate mobility in the labour market.

Moreover, it is generally acknowledged that a general precondition for successfully operating such a flexicurity system is a supportive and productive social dialogue (European Social Partners 2007).

We now turn to a description of the four ideal-typical pathways identified by the European Commission. For a complete overview of all the policy suggestions corresponding to each ideal-typical pathway, we refer to the report of the Flexicurity Expert Group.

Flexicurity pathway 1: dealing with flexibility at the margin

The first pathway addresses the issue of flexibility at the margins of the labour market. It aims to reduce asymmetries between standard and non-standard work by promoting upward transitions in the labour market and by integrating non-standard contracts fully into labour law, collective agreements, social security and lifelong-learning systems. Alternatively, standard contracts could be made more attractive

to companies by introducing an open-ended contract in which specific elements of protection are built up progressively with time, until 'full' protection is eventually achieved. Such a contract guarantees basic but adequate protection from the start but then builds up more protection as the working relationship continues. Social partners and governments should negotiate the terms of these arrangements.

Flexicurity pathway 2: securing transitions from job to job

The second pathway emphasises safe and successful job-to-job transitions. Built-in contractual guarantees and human resource management (HRM) policies should ensure timely transitions into new jobs in either the same company or another company. To help reduce unemployment, employers, social partners and public employment services may provide individualised transition facilities to redundant workers. Moreover, a strong system of lifelong learning and vocational training may constitute the basis for productive labour-market transitions inside and outside companies. Such a system should allow for quick access to effective training funds and facilities at the branch level if the need arises. Within this pathway, strengthening *internal flexicurity* is also relevant, especially to enhance the employability and skills of workers.

In the Dutch case, as we will argue below, the institutions for providing transition security can be strengthened, turning them into more wide-spread facilities that are not limited to employees of large firms that can afford outplacement and retraining, but are also available to other workers.

Flexicurity pathway 3: access to learning and good transitions for all

This pathway recommends strengthening investment in skills and R&D. In this way, the opportunities for employment and income security for specific groups in the labour market can be enhanced and productivity growth can be boosted. A wide-ranging approach is required to keep the labour market accessible to low-skilled workers and other groups at risk, such as minorities, older workers, women and early school leavers. This helps to prevent long-term unemployment and to combat other forms of social exclusion. This pathway benefits from binding agreements at branch or regional level that address the flexibility needs of both employers and workers as well as strategies for better investment in training. Where the institutional structures for such agreements are not yet in place, support from the social partners and the government is needed.

Flexicurity pathway 4: comprehensive social security supporting transitions to regular work

This pathway starts out from the urgent need to increase the employment and job opportunities of persons who are currently receiving social security benefits or working in the informal sector. Active labour market policies (ALMP) and social security should offer sufficient opportunities and incentives, in terms of increased conditionality of benefits for example, to return to work in the formal sector. Long-term welfare dependence could thus be prevented. Informal work can be regularised by offering flexi-secure contracts, lower payroll taxes and a skills perspective (i.e. one that aims to raise the training and productivity levels of the workers) to employers and workers operating in the informal sector. The formalisation of informal economic activities can help raise financial resources for building up a more comprehensive social security system. This requires the development of a stronger institutional capacity. Among other things, social partners need to be encouraged to negotiate key elements of working conditions while labour market and benefit institutions should co-operate better. Social dialogue can be further developed at sector and regional level and both bipartite and tripartite dialogue can be strengthened.

3. FLEXICURITY ACHIEVEMENTS AND CHALLENGES IN THE NETHERLANDS

3.1. THE 'NORMALISATION' OF ATYPICAL WORK

At the national level, many Member States have developed various labour market initiatives and reforms over the past decade that could qualify as flexicurity strategies i.e. they have adopted an integrative view on flexibility and security.³ The Netherlands often serves as an example (European Commission 2006). Dutch flexicurity policies have been developed rather deliberately and aim at the normalisation of atypical work while preserving flexibility in the labour market. This approach, codified, among other things, in the Flexibility and Security Act and in collective labour agreements for the temporary work agency sector, served as an example at the European level in the early stages of the flexicurity policy-making process. The Dutch labour market has also performed well during the past two decades. In 2007, the Netherlands had an employment rate of 74.3 per cent and an unemployment rate of 3.2 per cent, compared to 64.5 per cent and 7.1 per cent respectively in the 27 EU Member States (EU27).⁴

³ Many more examples of flexicurity practices in the 27 Member States can be found in the report of the Rapporteur of the European Expert Group on Flexicurity, titled *Flexicurity Practices* (June 2007). See Wilthagen (2007).

⁴ All figures presented in this section are based on Eurostat calculations.

In recent years, economic growth has been modest to good (2.3 per cent is expected for 2008) while inflation has been rather low (between 2003 and 2006 prices in the Netherlands increased by 4.8 per cent, whereas the average in the Eurozone amounted to 6.9 per cent⁵).

As regards the first component of flexicurity (i.e. flexible and reliable contractual arrangements), the Dutch labour market is characterised by substantial contractual diversity, including part-time work, fixed-term work and agency work, all aspects of the first component of flexicurity. In 2006, 46 per cent of the employed labour force worked part-time (compared to only 18 per cent in the EU27). Working part-time is even regarded as a normal and desired type of employment, which is illustrated by the high share of part-time workers who report that they voluntarily work in this type of employment. Women especially work part-time (75 per cent in NL compared to 31 per cent in the EU27 in 2006). Whereas this type of employment allows women to combine work, care and leisure, in the long run it tends to harm their career prospects and wage levels (Román 2006). The proportion of employees with a contract of limited duration was 18.1 per cent in 2007 (14.5 per cent in the EU27).

Security for these 'atypical' workers is provided in several ways, notably by strictly applying, by law, the *pro rata temporis* principle to part-time workers (Visser, Wiltshagen, Beltzer and Koot-van der Putte 2004). This holds true not only for the position of the employee under civil law, but also for social security legislation and entitlements. Two laws are in particular relevant to part-time workers, but also to fixed-term workers: the Prohibition of Discrimination by Working Hours Act (*Wet Verbod Onderscheid Arbeidsduur*, WVOA) and the Adjustment of Working Hours Act (*Wet Aanpassing Arbeidsduur*, WAA).

3.2. REMAINING FLEXICURITY CHALLENGES

3.2.1. Integrating Low-Skilled Workers

Notwithstanding these developments, the Netherlands should not be regarded a flexicurity paradise or utopia. Like any country, the Netherlands does face various employment challenges and should map out its own further pathway with the necessary steps for improvement. First, regulations and policies can be improved in order to strengthen the positions of specific vulnerable groups that have a hard time entering and progressing in the labour market, such as ethnic minorities and low-skilled workers. Although unemployment among non-western non-nationals has decreased significantly during the recent upswing in economic activity, the unemployment rate of 9.1 per cent is still almost three times higher than the unemployment rate for Dutch

⁵ Source: Eurostat and Statistics Netherlands (CBS).

nationals.⁶ In the 15–25 years age group the unemployment rate amounts to 15 per cent for non-western non-nationals and 8.1 per cent for nationals. School dropout is a serious problem, particularly among ethnic minorities. One in eight young people leave school without a basic qualification, which complicates the transition from school to work. About 10 per cent of the population has very low literacy skills so that they are functionally illiterate. The training system does not yet adequately facilitate combinations of work and training, especially for those workers who prefer to learn on the job rather than in a formal educational setting. An adequate infrastructure for implementing life-long learning on the work floor is still lacking. The resulting training deficits harm labour-market prospects.

3.2.2. Overcoming Duality in Employment Protection

The Dutch system of dismissal protection is fairly strict for insiders and more relaxed for outsiders in the labour market (Deelen, Jongen and Visser 2006). This means that companies may seek alternative ways to increase their external flexibility, usually by hiring additional workers on temporary contracts or via employment agencies. These flexible work forces are often representatives from more vulnerable groups, such as young people, ethnic minorities and the low skilled. Especially if these people cannot make a timely transition to more permanent forms of employment, they may profit less from some social security provisions (pensions) and securities attached to a permanent job (e.g. access to training) (Vielle and Walthery 2003). This indicates a structural problem in the Dutch labour market: permanent staff are too permanent and ‘flexible employees’ (flexi-workers and self-employed persons) are not permanent enough. For both groups, there is too little investment in employability. Permanent employees face insufficient incentives to boost their employability and to tackle new challenges. As regards employees on a flexible contract, employers do not invest much in their employability. This imbalance has a negative effect on the level of motivation and productivity within the labour force.

3.2.3. Self-Employment

Another phenomenon, often associated with the strictness of employment protection legislation and regulation, from the perspective of both companies and workers, is the steady rise of self-employed workers. The total Dutch working population consist of almost 7.8 million people. It is estimated that currently nearly 1 million

⁶ Data from Statistics Netherlands based on the national definition of unemployment, which differs from the international Eurostat definition. The main difference is that Statistics Netherlands regards a person as unemployed only if a person is actively looking for a job of at least 12 hours a week. The authors thank Sonja Bekker of Tilburg University for collecting relevant statistics included in this section.

workers conduct their activities outside the traditional employment relationship. In the construction sector for example, the number of self-employed (i.e. own-account) workers has increased by 31 per cent over the past two years.⁷ Below, when dealing with reform proposals, we will return to the position of the self-employed.

3.2.4. *Older Workers*

Older workers constitute an especially vulnerable group. Although older workers that have been working for the same employers for a large number of years enjoy good labour conditions, they generally lack sufficient transition and employment security. In particular, if their jobs are at risk, e.g. in cases of restructuring, they lack the security and ability to make a timely transition to another job. Reintegration back into the labour market in the case of unemployment or disability is disproportionately hard for older workers. To illustrate, only 14 per cent of all the people aged over 55 who become unemployed are able to find work again within one year.

Job mobility for older workers is very low, in part because these workers typically lose a lot of their tenure-based employment protection if they move to another employer. In part due to non-portable employment protection, elderly workers are tied with 'golden chains' to their employer, even if they are no longer motivated and would therefore prefer a new challenge in another job. This obstacle to transitions to more productive job opportunities harms productivity of human capital. This becomes increasingly problematic in an ageing society.⁸ It also hurts training and schooling because workers often learn the most when they start a new job. Dutch companies are lagging behind in investing in the skills and retraining of their older workers compared to young workers. Whereas half of the Dutch employees in the age categories 16–24 and 25–34 years took part in education or training for their job or profession between 2004–2006, only 30 per cent of the workers aged 55–64 could say the same.⁹

The lack of employability of older workers contributes to early retirement. The employment rate of the older generation was a low 21 per cent in 2006 for the group aged 60–65 years.¹⁰ Most of the people in this group are either in early retirement arrangements, or, often in the case of women, left the labour market decades ago when they married and started a family. Developments such as these call for a general and effective system of transition and employment security, not limited to large firms that already operate mobility centres and the like.

⁷ Source: Statistics Netherlands.

⁸ A recent study on job mobility in Europe confirms that both too little and too much job mobility is detrimental. It is also reported that some evidence exists that employing workers with 4–10 years of job tenure has the most favorable impact on productivity (Andersen *et al* 2008).

⁹ Data: Institute for Labour Studies (OSA), Tilburg, the Netherlands.

¹⁰ Data from Statistics Netherlands.

3.2.5. *A More Efficient Use of Female Labour Supply*

A third urgent concern in the Dutch context is the dearth of career opportunities for women, including pay gaps and the lack of women in the top management of companies and institutions. Even when their children are older, women continue to work in part-time jobs with few career possibilities. Transitions from part-time to full-time employment thus seem rather difficult for people who experience transitions in their care obligations at home. To facilitate these transitions, employers should offer more flexible working careers so that men and women alike can invest in the human capital of their children without depreciating their own human capital. Companies still very much aim their career systems at full-time male workers who can devote themselves their entire working life full-time to their career. The limited possibilities for older women to move on to well-paid, productive jobs are also related to the rigidities in the labour market for elderly workers. Female workers who want to return full-time to the labour market at age 45 are often stuck in jobs that do not exploit their full potential. Indeed, as described above, employers do not invest a lot in the human capital of workers who have passed the age of 50.

The inadequate exploitation of female human capital in the Dutch labour market, if not a waste of investment, still harms the volume of labour supply (in terms of hours and persons) and the productivity of the Dutch labour force. The resulting lack of female labour supply threatens the economic and financial sustainability of the welfare state in an ageing society. This threat applies especially to the services provided by labour-intensive education and health sectors, which rely rather heavily on female workers. The facilitation of transitions from part-time to full-time work aimed at a better reconciliation of work and family over the life course constitutes a major challenge to the Dutch flexicurity system (for an overview of all such issues see OECD 2007). The same applies to better maintenance and utilisation of female human capital.

This analysis of the problems faced by the Dutch labour market neatly matches the European Commission's recommendations for the Netherlands, among which are to facilitate the transition from part-time to full-time work, reduce the gender pay gap, combat early school leaving, and raise labour supply. The OECD and the IMF have recently put forward similar suggestions (IMF 2008, and OECD 2007).

The Netherlands can seek inspiration from more than one of the 'typical' pathways proposed by the European Commission. In particular, pathway 3 appears relevant in view of the difficulties that specific groups are experiencing in the Dutch labour market. Also pathway 1 applies, as the Netherlands must avoid further segmentation in the labour market, resulting in a growing gap between insiders and outsiders. This paper, however, focuses on a possible elaboration of the second pathway by promoting transition security, firms' adaptability and labour-market mobility. Arguably, the adequate designing and stipulation of the second pathway also addresses some of the

challenges that are at the core of the other three pathways. In particular, transition security will help outsiders in the labour market and people not yet participating in the labour market in (re)entering the formal labour market and making progress in terms of upward mobility.

4. PROPOSALS FOR ENHANCING TRANSITION SECURITY AND LABOUR MARKET MOBILITY IN THE NETHERLANDS

In the Netherlands the Committee on Labour Market Participation (also known as the Bakker Committee)¹¹ has recently published (June 2008) its proposals and recommendations for raising the labour market participation rate to 80 per cent by 2016. The Committee was installed in the wake of a vigorous political struggle over the reform of the Dutch employment protection legislation in order to resolve the resulting deadlock that had nearly led to the fall of the coalition government. The Committee, which comprised independent labour-market experts from the public sector, the private sector and academia, was asked to explore all possible options for enhancing labour market participation. The report suggests ways to reform the Dutch labour market system while at the same time alleviating workers' feelings of insecurity about the risk of losing their job. The Committee's report advocates a three-track approach. The first track pertains to the necessity of facilitating and stimulating, as soon as possible, weak groups to get a job or to work more hours. The proposals here might be considered less innovative, as they originate in a broad consensus among labour market experts (and build on existing or former policies in the Netherlands), but they are nonetheless important. Basically this track represents a sticks and carrots approach for all parties involved. It is proposed that employers should be encouraged to hire long-term benefit recipients on the basis of temporary wage costs subsidies, a so-called 'no risk policy' and secondment arrangements. Benefit recipients, in their turn, will have a participation obligation and part-time workers will be stimulated through tax incentives to extend the number of working hours. At the same time, facilities for combining work and family are being improved, including career, working-time and child care arrangements.

The second track includes the proposal to raise the official pension age as of 2016 (by one month per year) in line with the population's growing life expectancy. The goal is to counteract the decline of the labour supply, caused by a shrinking working population. Currently, residents in the Netherlands are entitled to a state pension at the age of 65. The recommended reform would gradually raise this age to 67 by no later than 2040.

¹¹ One of the authors of this paper has served as a member of this Committee.

4.1. DESIGNING A FLEXICURITY LABOUR MARKET SYSTEM

The most innovative ‘flexicurity’ aspects of the advocated reforms are entailed in a third track of proposals. This track might well be considered the more fundamental track as it directly affects the fundamentals of the labour market. Its goal is to improve the operation of the labour market, thereby enhancing the productivity of human resources, employment security and the employability of the labour force. The second track is also expected to contribute to a more competitive, innovative economy. Indeed, innovation is associated with creative destruction and thus demands a lot from the capability of workers to adjust to new circumstances. The social legitimacy of policy also increases, if a well-functioning labour market offers adequate security during the transition period between jobs.

The approach also ensures that the employment gains produced through the first track are in fact sustainable without substantial public spending on wage subsidies. As regards the second track, by enhancing the employability of older workers and the operation of the labour market for these workers, the third track helps to raise the effective retirement age in the future in line with increased longevity.

The basic philosophy of the third track is to give employers, employees and municipalities at a decentralised level more responsibility for employability and transitional security of workers. Additional decentralised responsibility is matched with additional instruments for these decentralised parties to work on employability and employment security.

This policy has two main elements:

4.1.1. *Employment Insurance*

The first proposal is to turn the current Unemployment Insurance Scheme into an *Employment Insurance* scheme, geared towards the prevention of unemployment and a smooth transition to a new job.¹² Employers are required to continue to pay 80 to 100 per cent of the worker’s payment for a maximum of six months after giving notice to the worker. During this so-called *transfer period* the worker can fully devote himself or herself to finding new employment. If this time span does not suffice, the worker is dismissed, but not before the efforts of both the employer and worker have been evaluated. The worker then enters a re-integration scheme where the sector of industry bears the financial responsibility and where private or public re-integration organisations can be relied upon. After another six months and if a new job still has

¹² The concept of employment insurance (EI), replacing traditional unemployment insurance (UI) has been advocated in the literature notably by the German scholar Guenther Schmid. In his recent book (Schmid 2008:253) he states that ‘(...) the increasing variety of employment risks requires a move from UI centred on income security for jobless people to a system of employment Insurance (EI) centred on job-to-job security.’ For empirical evidence see Muffels et al. (2008).

not been obtained, the responsibility is shifted towards the municipality. The exact benefit levels of the second and third period are still to be discussed, but the second period might match the current unemployment benefit level of 75 per cent of last earned income.

In this new system, the employer also gains as employment protection legislation is eased through the abolishment of the current pre-emptive testing of dismissals, conducted by the public employment services.¹³ At the same time, during the notice period, the worker can go to the courts to challenge the reason the employer gives for the prospective dismissal¹⁴ but this notice period is shortened to only one month. Moreover, as indicated above, a gate-keeper (probably the public labour office) evaluates the efforts of the employer to help the worker find a new job during the transfer period.

The idea of putting more emphasis on attaching a price to laying off people, rather than on legal procedures that depend on the form of contract, is consistent with economic theory (see for example Blanchard and Tirole 2008, Deelen, Jongen and Visser 2006). The requirement to continue to pay the wage of a worker during the transfer period can be viewed as an element of own risk for the employer in unemployment insurance. Blanchard and Tirole (2008) show that such an element induces the firm to internalise the cost of unemployment and take efficient layoff decisions.¹⁵ It encourages employers to prevent lay offs and lengthy spells of involuntary unemployment. This prevention can involve investing in the employability of workers. It can also involve facilitating voluntary transfers to other employers of those workers who still happen to become redundant. Indeed, employers face incentives to help

¹³ The Dutch system of dismissal regulation is of a pre-emptive or preventive nature and it also allows employers to choose between two channels for pursuing dismissals: either they should go to the public employment services (CWI; this procedure was established during the Second World War) or they file a request at the lower courts (kantonrechter). In both cases the labour contract cannot be legally terminated before a permit (or in the case of the courts, rescission) has been granted. The courts (not the CWI) have the power to decide on severance pay for the employee. For this matter, the association of lower court judges has developed a particular formula to calculate the amount of payment, taking into account tenure and wages of the employee and the nature of the dismissal (especially whether the employer or employee is to blame). One monthly salary per year of tenure is the standard level of severance pay, but it can be raised according to the circumstances of the dismissal. Flexible workforces not on open-ended contracts are currently excluded from severance pay.

¹⁴ Social partners can agree in private collective labour agreements on various requirements the employers must meet before they can lay off workers and the procedure employers need to follow in the case of lay offs.

¹⁵ They also show that, implicit in this, the optimal size of the lay-off tax required to be paid to an unemployed worker should be less than the total income paid to the worker, if one takes account of the limited capability of firms to absorb the unemployment risk. Bearing this risk may be especially burdensome for small firms. That is why the Bakker Committee puts forward several proposals to limit the risks for small businesses.

redundant workers find another job and to set up efficient institutions and procedures for offering more transition security.

4.1.2. Work Budget

The second element is the introduction of a so-called Work Budget that replaces the current Dutch Life Course Savings scheme and another tax-favoured employee savings system.

The present Life Course Savings scheme, which came into force in January 2006, contains the following key provisions:

1. Employees may save a maximum of 12 per cent of yearly gross income to a maximum of 210 per cent of the yearly gross income, in order to finance periods of unpaid leave, e.g. care leave, sabbatical, terminal care, parental leave, training leave or early retirement. After the take up, the account can be refilled up to the 210 per cent. A maximum of 3 years leave could be saved for, if the employee decides that 70 per cent of his or her wage is sufficient, but after 18 months the social insurance coverage expires. An employee that insists on 100 per cent of his or her wage will be able to finance a maximum leave period of 2.1 years;
2. Money can be put in a life course saving account or used as premium for life course insurance (at private insurance companies, pension funds etc.). In agreement with the employer, overtime can also be saved in the account.

No new rights to leave were introduced in addition to the existing rights; the Life Course Savings scheme is first and foremost a fiscally stimulated arrangement to save money to be used during certain periods of leave (especially non-paid leave) or inactivity. Collective bargaining parties are expected to incorporate and facilitate the Life Course Savings scheme in their agreements and employers are obliged to offer the Life Course Savings scheme to their employees. So far participation rates within the scheme have proved rather modest, especially among lower paid workers. This is why the Work Budget is composed in a different, much broader way.

The newly proposed Work Budget is personal and portable, which means that the worker can transfer it from one job to another job. It is designed to maintain the worker's employability level and can be used to finance the actual costs of training and schooling. The funds in this budget can also be utilised to provide additional income in case of job transitions, part-time retirement, training, unpaid leave, a new job or position with lower earnings, or setting up one's own business. The Work Budget is also available to flexible workers.

Both the worker and the employer contribute to the Work Budget. Eventually the mandatory contribution should increase to a level of a half monthly salary per year

for workers with low and middle incomes. The contributions of the employer to the Work Budget should not raise overall labour costs. The most important sources for the employer's contributions are current severance payments. In the new system with employment insurance, severance pay is paid in addition to the payments during the transfer period only in special situations in which employers do not meet their contractual and other responsibilities towards workers who are laid off.¹⁶ Lower severance payments thus provide room for contributions into the Work Budget. This makes workers less vulnerable to the risk of firm-specific shocks; in the case of bankruptcy of the firm that employs them, workers have already received payments in their Work Budget.

The current system of severance pay discourages workers from moving to another job that better fits their talents and private circumstances because in that case they lose their tenure-based employment protection. In contrast to the current severance pay, the Work Budget is portable between jobs. Hence, workers who are not satisfied with their current job can more easily take the initiative themselves to move to another employer. To illustrate, workers with a physically demanding job can transfer in time to another job in which they can continue to work up to a higher age. By allowing (especially older) workers to move more easily between jobs, the Work Budget also enhances employability and training because a move to a new employer is often an important opportunity to learn new things. Such a transition can thus enhance the motivation to work up to a higher age. More generally, with the portable protection of the Work Budget, workers become less dependent on the specific employer they work for. This is the next phase in the emancipation of the worker. Indeed, employment security and transition security replaces job security, which is increasingly difficult to guarantee in the face of increasing firm-specific risks arising from a more dynamic and competitive economy.

The idea of the Work Budget is closely connected to the recent recommendations of both the OECD and the IMF in their country reports on the Netherlands, to move from the current severance pay (which is paid *ex post*, i.e. after a worker is laid off) to a system of transferable saving accounts in which employers contribute *ex ante* (i.e. before workers make a transition). Such a reform can be expected to create a more flexible labour market for elderly workers in which these workers can take more control over their own lives and in which workers are exposed less to firm-specific risks. In this context, both the OECD and the IMF refer to a similar reform in Austria in 2002, in which a system of funded severance payments (*Abfertigung*) was introduced (see e.g. OECD 2008). In cases of a standard employment contract (with a duration of more than one month), Austrian employers contribute a payment

¹⁶ However, employers and employees can still agree on severance pay in private contracts. They may also agree on transitional arrangements during the period during which the Work Budget must be built up.

equivalent to 1.53 per cent of gross pay into special funds (*Mitarbeitevorsorgekassen*), which can be accessed (after a qualifying period of three years) on job termination. The worker can choose to take the payment, keep it in the fund, or transfer the sum of money into a pension insurance fund.¹⁷

Another advantage of replacing traditional severance pay with the Work Budget is that it provides more incentives to high-skilled workers to maintain their employability. Lower skilled workers, in contrast, benefit from more employment protection. These workers are typically on flexible contracts and thus do not benefit from severance pay but would obtain employer contributions into their Work Budget. In the current system of employment protection, even the lower skilled workers on permanent contracts often do not benefit from severance pay when they are laid off. The reason is that the employer involved can often obtain permission from the labour office to lay off these workers without much compensation. Employers thus do not face much incentive to invest in these workers. Under the system of Employment Insurance and the Work Budget, the protection of workers becomes less dependent on the specific contract form, so that the current substantial differences in employment protection between those workers on flexible and permanent contracts would be narrowed. Moreover, protection would become stronger for low skilled workers who need it most.

Another source of funds for employer contributions into the Work Budget are the current contributions of the employer into the pension plans of workers. This becomes available as a result of the third track of the proposals of the Committee on Labour Market Participation. The relationship between the second and third tracks is thus twofold. As indicated above, the second track facilitates the third track by raising the employability of the labour force so that the retirement age can be increased, because workers can work up to a more advanced age. At the same time, by reducing the costs of the retirement system, the third track provides the resources to finance the investments in human capital and the new transition arrangements in the second track. By transferring the room for tax benefits from retirement saving to the Work Budget, the government in fact increases the uses to which tax-favoured deferred wages can be put. These deferred wage payments do not have to be used for retirement but can also be utilised to invest in human capital or to finance temporary inactivity earlier in the life cycle. Social partners can make agreements at sectoral or firm level as to which uses the Work Budget can be put.

Figure 1 summarises the possible ways in which the various parties can finance the Work Budget.

¹⁷ For a description and comparative discussion of the transferability of the Austrian system in English, see the Mutual Learning Programme of the European Commission, available at <http://www.mutual-learning-employment.net/stories/story>.

Figure 1. Contributions to the Work Budget and possible sources for these contributions

	Employers	Employees	Social partners	Government
Contribution	Fixed mandatory contribution	Voluntary contribution	Voluntary agreements on contributions	Fiscal facilitation
Possible base for financial room	Reduced pension premiums due to extended working careers/ retirement at later stage Lowered social security premiums due to Employment Insurance Reduced severance pay Employer contributions to current Life Course Savings System	Entitlements to shorter working hours, temporary wages, profit sharing, annual bonuses, performance pay, overtime Other sources	Current training and education funds at sector level Other sources	Funding for current Life Course Savings scheme and other fiscally facilitated savings scheme for employees Additional tax revenues due to reduced deductions of pension premiums Financial resources for reintegration of workers Other sources

Source: Committee on Labour Market Participation (2008).

4.2. THE PROVISION OF WORK AND INCOME

If a laid-off worker does not succeed in finding a job during the transfer period and the subsequent period during which the sector or industry bears responsibility for reintegrating the worker, the worker involved can then be considered to be at a substantial distance from the regular labour market. In the current system, the public organisation for the implementation of social security schemes (UWV, which is financed at national level) has the primary responsibility for reintegrating the long-term unemployed. The Committee on Labour Market Participation wants to shift the financial responsibility to the municipalities as stakeholders of the new LWI, a newly established one-stop Location for Work and Income at the municipality level (to be in operation as of 2009¹⁸). As direct risk-bearers for the performance of the LWIs in their region, the municipalities are expected to put more pressure on the LWIs to reintegrate the long-term unemployed. Moreover, after being unemployed for a year, the individual involved must accept any job – even if this job earns substantially less than the previous job the individual held. The municipalities also get more discretion to pay temporary wage subsidies to employers who want to employ these individuals.

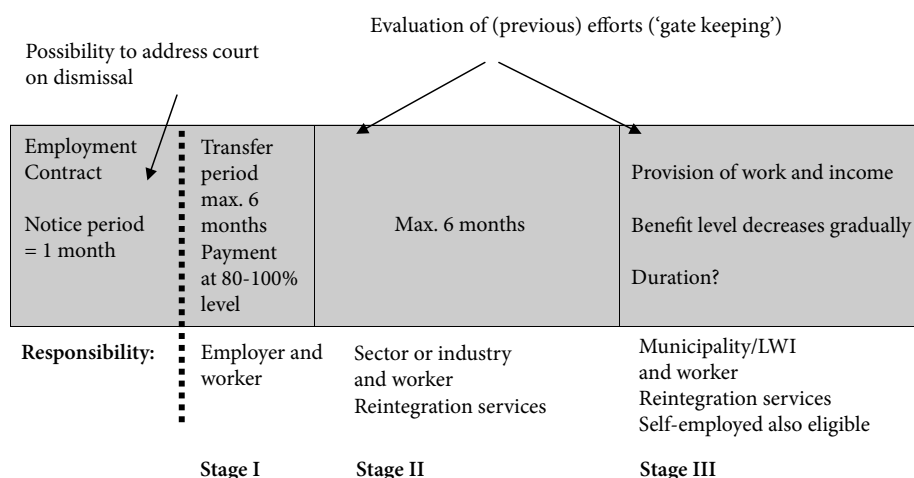
Another innovation is that also the self employed are eligible for the provision for work and income for a limited period. The income level provided is on a minimum

¹⁸ The establishment of the LWI's is related to the merger, on 1 January 2009, of the the Public Employment Service (CWI) and the social security administration and implementation organisation (UWV). Some hundred LWT's (which is less than one per municipality) will be established in the country, offering a one stop service for all work-related matters for both job seekers and employers.

level. However, this provision is more generous than social assistance because there is no means testing – neither with regard the level of wealth nor the level of income of others in the household. The Committee also advocates that the length of wage-linked unemployment benefits is shortened to give workers more incentives to maintain their employability and actively seek a new job after losing a job. Together with a new provision for the self employed, these proposals imply that the current substantial differences in income protection between employees and the self employed are reduced.

The three phases within the Employment Insurance scheme can be displayed as follows (Figure 2):

Figure 2. The three phases of the Employment Insurance scheme



5. CONCLUSIONS

This paper discusses recent policy proposals, as developed by the Dutch Committee on Labour Market Participation, to reform the labour market system in the Netherlands. As indicated in the introduction, we portray these proposals as concrete suggestions to further develop, systematically, a flexicurity pathway towards better transition security and higher labour market mobility. In a concrete sense, the proposals illustrate how a particular Member State, i.e. the Netherlands, can continue its own path towards more flexibility combined with more employment and income security by taking good notice of its particular path dependence (institutions, culture, political system) and responding to its particular challenges. The proposals are consistent with the traditionally high involvement of the Dutch social partners in employment and

labour market policies and the large role played by individual employers, but at the same time the proposals aim at re-focussing and further decentralising their efforts. Moreover, the approach builds on regulatory policies, based on financial incentives (mandatory continuation of pay during a certain period of time) that have proved reasonably successful in other domains of labour market policy and social security since the early 1990s, especially for the reduction and prevention of disability cases and sickness absenteeism in Dutch companies. The same holds for the various public-private forms of collaboration, implementation and reintegration that have evolved in the Dutch labour market.

We argue that the approach outlined by the Committee may be considered, in particular, an illustration of the way the second typical flexicurity pathway, as sketched by the European Commission, can be mapped out and stipulated. However, a good deal of the proposals, in our view, also gives input to the debate on the pursuance of the other three flexicurity pathways, as the proposals do touch upon ways to:

- (pathway 1) limit the gap between standard employment contracts and atypical contracts, by fully including flexible workforces in the proposed Employment Insurance and Work Budget facilities and by redesigning current employment protection legislation;
- (pathway 3) specifically enhance the training and employment opportunities for weak groups in the labour market, including older workers, women in part-time employment and ethnic minorities;
- (pathway 4) reduce and prevent long-term benefit dependency, especially in unemployment but also in disability schemes, as timely transitions within a job (e.g. to less demanding activities) can, in line with the theory of transitional labour markets (Schmid and Gazier 2002, Wilthagen 2002), prevent workers from dropping out of employment for reasons of ill-health.

It can also be argued that the proposals made do reflect the four components of flexicurity as identified by the European Commission (see section 2).

Admittedly, the proposals do not represent a detailed and complete blueprint, but rather explore a systematic approach to labour market policy innovation. A great many aspects and issues need to be further elaborated and considered, including various legal aspects, the specific nature of the often collectively experienced risk of unemployment compared to the more individually based risks of sickness or disability, the impact of the proposed employment security system on small and medium sized businesses and the actual consequences that the new system can be expected to have for specific groups such as older workers (see Pennings forthcoming).

We wish to end this concluding section by briefly addressing two major questions. The first question is whether these reform proposals can be expected to further develop Dutch flexicurity, by enhancing the adaptability of both workers and citizens.

The answer to this question is not an easy one. The Committee clearly acknowledges that the transformation to the new system should take place slowly and gradually. Support from all major stakeholders, politics, government, employers, and workers and their organisation, courts and various labour market services is indispensable. At this moment (February 2009), the debate on the proposals, which were released in June 2008, has not yet progressed far and the debate now ties in with the debate on the need for wage moderation and job rotation in view of a possible economic downturn as a consequence of global crisis (the credit crunch).

A second important question regards the relevancy of the proposed reform to other countries. Policy learning (Visser and Hemerijck 1997) and mutual learning are key concepts within the European Employment Strategy. A straightforward transplantation of a country's policies and reform to another country is generally seen as impossible and undesirable. Looking for inspiration rather than imitation seems the best strategy in this respect (Wilthagen 2008). To illustrate, the Dutch proposals presented here are at certain points, especially the development of an Employment Insurance and the Work Budget, informed and inspired by the Austrian system of dismissal regulation and severance pay. Many Member States might have an interest in taking notice of the proposals from the viewpoint of mapping out their own distinct pathway towards flexicurity, especially those Member States that are considering offering more employment and income security in their labour markets while simultaneously encouraging job mobility and transitions, and possibly redesigning, in a careful and balanced way, institutions and regulations that represent too strong a hurdle to this.

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